



## Developing countries are amateurs in the corruption game

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When asked whether he thought people were basically good, Argentine president Juan Peron purportedly responded, "Yes, but if you keep an eye on them, they're even better."

Who was keeping an eye on corporate behemoths BAE Systems (British Aerospace) and Siemens (of Germany)? Both are embroiled in highly publicized investigations involving bribes paid to win contracts in the developing world.

We're not talking about petty "facilitation payments" caused by one-off lapses in judgment by mid-level salesmen. Siemens is being investigated for \$543 million U.S. in suspicious payments made over seven years and orchestrated from the corner offices. Among various allegations, BAE allegedly paid bribes in a number of countries, including one of \$1 billion (\$1.93 billion U.S.) to Saudi royalty to secure a \$13.5-billion contract.

For more than a decade, rooting out corruption has been a cause celebre of the Organization for Economic Co-operation and Development, the United Nations, the World Bank and numerous NGOs. The catalogue of economic, political and social evils corruption causes has been oft-recited. It's a pox on development for poorer countries. In response to the campaign, countries adopted laws to curb domestic corruption and bribe paying abroad.

Transparency International, an anti-corruption advocacy NGO based in Germany, and the World Bank publish surveys that measure the frequency of bribe paying throughout most countries in the world. We may quibble with aspects of perception surveys, but they offer a ballpark barometer.

It may not surprise that the surveys have consistently found that governments in poorer countries (with shakier legal systems and governance) are by and large perceived to be more corrupt than their counterparts in developed countries.

That's only half of the story. Every madam has her john. Transparency International recently published a bribe-payers index that rates the tendency of companies in the top 30 exporting countries to pay bribes abroad. The basic conclusion: Everyone bribes abroad, some more routinely than others. The two worst offenders are the growing titans, China and India. Brazil, the other growing titan, is not far behind.

If they're all doing it, then why have developed countries prosecuted only a handful of cases?

Transparency International says that the exporting countries are only paying lip service to enforcement. Even Prime Minister Tony Blair, a vicar of morality in foreign affairs, has shut down the investigation into BAE's exploits in Saudi Arabia on national security grounds -- a justification that few find persuasive.

Governments in the developed world have traditionally taken a laissez faire attitude toward foreign bribery. Some even condoned it by permitting tax deductions for bribes paid abroad. They have seen no short-term political gain and a lot of potential loss in jeopardizing foreign contracts that bring income and jobs for companies headquartered in their countries. They are already walking a fine line in a world where large companies increasingly show little allegiance to their home countries by either moving operations offshore or extracting fiscal and other concessions not to.

The latest though unspoken justification for turning a blind eye is that India, China and Brazil can bribe abroad without fear of prosecution at home. This card is overplayed. Foreign-bribe paying has been going on long before those countries became global competitors. Given their apparent level of foreign-bribe paying, companies from developed countries don't appear to be restrained wholeheartedly by fear of prosecution, either. India and China don't compete for many of the larger sophisticated contracts. BAE's main competitor for the Saudi contract was a French company (Dassault).

There's more to it. Bribery tentacles spread wide, deep and unpredictably. As the BAE file demonstrates, those tentacles can uncover a tangled web of embarrassing political relationships. Previous allegations involving BAE have included bribes paid to Chilean General Augusto Pinochet.

So, no one comes to the bribery discussion with clean hands. In fact, a World Bank study in 2004 lends some credence to claims by the developing world that developed countries appear more virtuous only because they are more sophisticated bribers and influence peddlers. The World Bank expanded the definition of corruption from bribery of public officials to include ways in which public policy is hijacked by powerful private interests leveraged through legal political finance and other influence peddling methods. The result: Many developed countries scored lower than underdeveloped countries. Using this metric, Canada, for example, was on approximate par with Egypt, Estonia and Indonesia, and below Botswana, Ghana, Tunisia, and many others.

In his book *Illicit*, Moises Naim of the Carnegie Endowment presents a house of horrors on the ways in which transnational corruption and lawlessness in a globalized world comes home to roost. Sooner or later, developed countries will make this connection and realize that it is in their vital interest to crack down on foreign corrupt practices.

Until the developed countries put some skin in the game by keeping an eye on their rogue companies, there's little hope of empowering reformers in the developing world or convincing them that the developed world is engaged in something more than an intramural game of hypocrisy.

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